OVERVIEW OF H.R. 1622
(COTTON RESEARCH AND PROMOTION PROGRAM ACT OF 1987)
AND POSSIBLE ALTERNATIVE FUNDING SOURCES

Scheduled for a Public Hearing

Before the

COMMITTEE ON WAYS AND MEANS

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Prepared by the Staff

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CONTENTS

	Page
INTRODUCTION	1
I. SUMMARY OF THE COTTON RESEARCH AND PROMOTION PROGRAM	2
II. ALTERNATIVE FUNDING SOURCES FOR THE COTTON RESEARCH AND PROMOTION PROGRAM	4
A. H.R. 1622	4
B. Dedicated Excise Tax Funding Source and Trust Fund	5
C. General Revenues	5
D. Expansion of Current Program	5
APPENDIX--U.S. COTTON PRODUCTION AND TRADE, MARKETING YEARS, 1960-1986	6

INTRODUCTION

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides an overview of current funding of the U.S. cotton research and promotion program, a proposed fee mechanism to finance the program under H.R. 1622 as reported by the House Committee on Agriculture,[2] and other possible funding sources, including an excise tax on cotton to finance the program.[3]

H.R. 1622 has been sequentially referred to the Committee on Ways and Means through December 4, 1987. The Committee on Ways and Means has scheduled a public hearing on the bill and possible funding alternatives on November 17, 1987.

The first part of the document is a summary of present-law financing of the cotton research and promotion program. The second part describes H.R. 1622 and possible funding alternatives. An Appendix presents data on U.S. cotton production and trade.

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[1] This document may be cited as follows: Joint Committee on Taxation, Overview of H.R. 1622 (Cotton Research and Promotion Program Act of 1987) and Possible Alternative Funding Sources (JCS-21-87), November 16, 1987.

[2] H. Rep. No. 100-339, Part 1, October 5, 1987.

[3] See Committee on Ways and Means, Press Release #20, November 10, 1987.

I. SUMMARY OF THE COTTON RESEARCH AND PROMOTION PROGRAM

The Cotton Research and Promotion Act of 1966 (the "Cotton Act") authorized the establishment of a Cotton Board to help the domestic cotton industry, in the face of a declining market share, to compete better with the synthetic fiber industry through the development of more efficient processing equipment and new and improved cotton products, and by increasing consumer awareness and acceptance of cotton products.

Similar research and market development programs apply to pork, beef, honey, and certain other agricultural commodities.

Originally, the cotton program was supported by a refundable assessment of $1.00 per bale of cotton, collected by a middleman in the raw cotton trade, with supplemental funding to be provided by the Federal Government. The assessment applied to all domestically produced upland cotton, including cottonseed from such cotton. The Cotton Act called for a referendum in which not less than two-thirds of all U.S. cotton producers (or more than one-half of all cotton producers representing at least two-thirds of total cotton production) approved the program. In 1976, the Cotton Act was amended to permit an increase in the assessment by the Cotton Board of up to one percent of the value of the raw cotton, in addition to the $1.00 per bale assessment, if producers approved the increase.

Currently, the $1.00 per bale assessment continues to be levied on cotton produced in the United States. In addition, an amount equal to 0.6 percent of the value of the cotton (determined at the point of first sale) is added to the $1.00 per bale amount.[4] Revenues from these assessments are used to fund a cotton research and promotion program administered by the Cotton Board.

Assessments are collected from producers by handlers (those engaged in harvesting, marketing, ginning, etc.) of cotton as designated by the Board. The Board has the authority to refund assessments to any producer not desiring to participate in the program. The Board also has the authority to conduct a referendum at any time, and is required to hold a referendum on the continuation of the assessment upon the request of 10 percent or more of the

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[4] Although the original funding mechanism authorized direct contributions of Federal funds to the Cotton Board, no such contributions have been made since 1977. Thus, the program is now entirely self-funded.

producers.

The Board is comprised primarily of members nominated by State producer organizations, along with a limited number of consumer advisers, all appointed by the Secretary of Agriculture. The Board contracts with Cotton, Inc., an associated non-profit organization, to carry out a program of consumer advertising, technical research, market research, and technical and marketing services for users of U.S. cotton. The operations of the Board and Cotton, Inc. promotional activities are subject to U.S.D.A. oversight.

II. ALTERNATIVE FUNDING SOURCES FOR THE COTTON RESEARCH AND PROMOTION PROGRAM

A. H.R. 1622

H.R. 1622, which was favorably reported by the Committee on Agriculture on October 5, 1987, would amend the Cotton Research and Promotion Act (7 U.S.C. sections 2101-2118) in the following manner, subject to approval in a referendum of cotton producers to be conducted by the Department of Agriculture:

(1) Assessments imposed upon domestically-produced upland cotton under present law would also be imposed at the same rate upon imported cotton and products containing processed cotton produced in foreign countries and imported into the United States. Accordingly, if the referendum were approved, imported cotton and cotton products would contribute a share of the cost of research and market development conducted by the Cotton Board.

The quantity and value of imported cotton would be established in accordance with regulations issued by U.S.D.A. The assessment on cotton products would be based on the cotton content of those products. The Cotton Board would be permitted to designate the handlers of imported cotton and cotton products who would be responsible for collecting the assessment.

(2) The present-law authority of the Cotton Board to refund assessments to cotton producers who do not want to participate in the research and promotion program would be terminated. The Cotton Board could continue to allow such refunds before the date that the results of the referendum were announced.

(3) The Cotton Board would be expanded to include an appropriate number of representatives, as determined by the U.S.D.A., of persons who import cotton and cotton products into the United States.

Within eight months of enactment of the bill, U.S.D.A. would be required to conduct a referendum among persons who have been cotton producers during a representative period for the purpose of ascertaining whether they approve or disapprove of the proposed amendments. To become effective, the amendments must be approved by at least two-thirds of the producers voting in such referendum, or by the producers of not less than two-thirds of the cotton produced during the representative period by producers voting in such referendum and by not less than a majority of the producers voting in such referendum.

Importers of cotton and cotton products would not be

permitted to vote in the referendum.

Under the bill, the Cotton Board may reimburse U.S.D.A. for up to $300,000 for the cost of conducting the referendum.

B. Dedicated Excise Tax and Trust Fund

As an alternative to the assessments imposed under the Cotton Research and Promotion Act, the committee may wish to consider imposing an excise tax in an equivalent amount on all domestically-produced and imported cotton, and a derivative tax (of an equivalent amount) on imported products containing cotton.

An amount equivalent to revenues from the tax (net of income tax offsets) could be deposited into a new Trust Fund established in the Treasury Department to finance the authorized research and promotion activities of the Cotton Board.

Dedicated excise taxes and Trust Funds have been established to provide funding for various Federal programs. It should be noted, however, that the excise tax/Trust Fund mechanism has been used typically to fund Federal programs of direct benefit to the general public (e.g., highway and airway programs, boating safety, and hazardous waste cleanup) rather than programs designed to promote a specific industry (e.g., cotton production).

C. General Revenues

As an alternative to the mandatory fee structure proposed in H.R. 1622, or to the possible imposition of a new dedicated excise tax, the activities of the Cotton Board could be funded from general revenues as part of annual appropriations for U.S.D.A. programs and activities.

D. Expansion of Current Program

Another alternative would be to extend the current fee imposed by the Cotton Board to imported cotton and cotton-containing products, but to maintain the voluntary aspect of the fee by providing for refunds to either producers or importers. Such an approach would be consistent with the GATT requirement of treating domestic and foreign goods the same.

APPENDIX: U.S. COTTON PRODUCTION AND TRADE, MARKETING YEARS 1960-1986 1/

YEAR	PRODUCTION	TOTAL IMPORTS	TOTAL EXPORTS
	(Thousand 480 lbs. bales)		
1960	14,237	129	6,857
1961	14,283	153	5,056
1962	14,827	137	3,429
1963	15,294	135	5,775
1964	15,144	118	4,195
1965	14,951	118	3,035
1966	9,555	105	4,832
1967	7,443	149	4,361
1968	10,925	68	2,825
1969	9,990	52	2,878
1970	10,192	37	3,897
1971	10,477	72	3,385
1972	13,704	34	5,311
1973	12,974	48	6,123
1974	11,540	34	3,926
1975	8,302	92	3,311
1976	10,581	38	4,784
1977	14,389	5	5,484
1978	10,856	4	6,180
1979	14,629	5	9,229
1980	11,122	27	5,926
1981	15,646	26	6,567
1982	11,963	20	5,207
1983	7,771	12	6,786
1984	12,982	24	6,215
1985	13,432	33	1,960
1986*	9,704	10	6,655
1987**	13,900	***	7,200

* 1986 data is preliminary.

** Forecast.

*** Forecast unavailable.

1/ Marketing years begin August 1.

Source: U.S. Department of Agriculture, Foreign Agricultural Service, Foreign Agriculture Circular: Cotton (March 1986 and April 1987).